

## MATERIAL SALES AGREEMENT

SINK CANYON  
(UAS C-1393)

WITNESSETH this agreement by and between the State Land Department of the State of Arizona, acting by, through and under the Arizona State Land Commissioner (hereinafter called Seller) and Cyrus Mines Corporation (hereinafter called Buyer) as follows:

That the Seller does hereby sell unto Buyer the right to remove groundwater

(hereinafter called materials) from the state lands described in the supplement hereto (hereinafter called premises) for the following term and in consideration of payment by Buyer of the following rents and royalties and compliance by Buyer with the following covenants, and conditions which Buyer hereby agrees to faithfully keep and perform, viz:

1. From the date hereof until the 7th day of June, 19 89, the Buyer shall have the right to sever, extract, use, store, remove and dispose of the materials found upon or in the premises within planes drawn vertically downward through the exterior boundaries of the premises.

2. Buyer shall have the right to use as much of the surface of the premises as is reasonably necessary for the extraction, severance, use, storage, removal and disposition of the materials from the premises, including where applicable, the right to wash, screen, crush, sort or otherwise mechanically process those materials, together with the right of ingress to and egress from the premises across other state lands along designated routes approved by the Seller and necessary to enjoy the purpose of this sale.

The Buyer may use any and all improvements existing on the premises and not removed or to be removed by a prior maker or predecessor of such improvements. The nature and extent of existing improvement on the premises shall be determined by inventories or reports thereof in the files of the Department, including the Department's inspection and report of the premises after removal of improvements by a prior lessee, permittee or buyer.

3. The Buyer may construct improvements and install such machinery and equipment which are necessary for the severance, extraction, storage, use or removal of the materials and Buyer shall have the right to remove such improvements, machinery and equipment from the premises within ninety (90) days after termination of this agreement, provided all monies due the Seller pursuant to this agreement have been paid in full and provided all covenants and conditions have been fulfilled by Buyer; improvements remaining on the premises beyond said ninety (90) days after termination of this agreement shall be presumed to have become the property of the trust which owns the fee of the land wherein and whereupon those improvements so remain located. Upon written application by the Buyer filed with the Seller before the expiration of said ninety (90) day period, the Seller may upon Buyer showing a good cause therefor, extend said ninety (90) days for an additional period not to exceed one hundred and twenty (120) days. Improvements made that may not be removed without the destruction thereof shall become the property of said trust upon termination of this agreement; however, should the Buyer herein not be the successful bidder at a re-sale of the materials made within one year of the expiration of this agreement from the premises upon which useful non-removable improvements made by the Buyer exist, said improvements shall be treated as belonging to the Buyer.

Anything herein to the contrary notwithstanding, the right to use the materials on the premises must be based on a separate contract with the Seller's permitting such use.

4. No one other than the servants, employees, or officers of the Buyer or an independent contractor or its servants and employees, while engaged in the performance of a written contract with the Buyer shall have the right to enter upon the premises to sever, extract, use, store, remove or dispose of the materials therefrom; Buyer may assign its interest herein with the prior written approval of the Seller.

#### 5. Rents and Royalties.

A. In addition to the payments hereinafter provided, Buyer agrees to pay Seller annually in advance the sum of \$ N/A per acre for and as surface rental of the premises described herein.

B. The Seller offered the materials at public auction on the basis of a minimum advance royalty of \$ 2,150.68 per year for 13 years, and a minimum royalty per unit of materials as follows:

The Buyer bid an advance royalty of \$ 2,150.68 per year and Buyer agrees to pay said advance royalty annually in advance. The Seller and Buyer agree that the advance royalties shall be a first credit for Buyer against royalties due from Buyer for materials used or removed, and that the entire portion of said advance royalties unused upon the termination or expiration of this agreement shall be the sole property of Seller. Buyer agrees that said advance royalties shall be paid each year regardless of use or removal of materials. The advance royalties shall be a continuing credit during the entire term of this agreement.

6. (1) Buyer bid and agrees to pay Seller the following royalty for the materials used, removed or disposed from the premises during the term of this agreement, viz:

Water	\$5.00 per acre foot		
Borrow		;	Sub-Seal
Select		;	ABC & MA
Cover		;	Material
Undifferentiated		;	Other

4. On or before the 15th day following each full month of this agreement, Buyer will report to Seller the total quantities (in gallons or acre feet if the material is water, and in tons, if the materials are solids) of materials used or removed from the premises during that immediately previous full month; such report shall be made irrespective of whether or not any of said materials have been removed. The Seller shall compute the royalty payment due from Buyer and such payment shall be due and payable within thirty (30) days of the mailing of the statement by the Seller.

7. A. The Buyer shall keep accurate books and records showing all materials used or removed from the premises; the Seller shall have the right to examine such books and records of the Buyer during reasonable business hours, and Buyer shall maintain all such books and records for six (6) months after termination of this agreement or such longer period as may be prescribed prior to the expiration of this agreement by the State Land Department.

B. Special provisions relating to water:

When the materials sold hereby specifically include water to be paid for on a water basis, the following provisions shall apply to said water:

(1) The Buyer covenants and agrees to submit monthly reports to Seller of all water used or removed from said lands, and Buyer will meter or otherwise accurately measure the quantity of the water used or removed and will keep and maintain records accurately reflecting said production and such records shall be open to inspection by the Seller during regular business hours.

(2) Buyer understands and agrees that its right to remove water from the leased premises pursuant to this agreement and to the sale thereof, shall be to the extent that the same is lawful, and further, that the Seller has not made nor does it hereby make any representation as to the quantity that may be so removed lawfully, nor to the quantity that may be extracted and used upon the leased premises, save only that Buyer may extract, use and remove such water to the full extent that a private party lawfully may do without liability.

(3) For the purposes of this sale and where the material sold does not specifically provide a charge for water, the Buyer may use upon the premises water found upon or in the premises, and the royalty to be paid according to this agreement for the materials has been calculated to include the value of said water.

8. The Buyer hereby agrees to conduct its operations on the premises in a workmanlike manner at all times, to protect the premises and soils thereof and including, but not limited to:

A. To keep the premises free of all litter, refuse, trash, garbage, junk or other debris.

B. To take precautions as necessary to protect the safety of persons or property upon the premises.

C. To comply with all flood control regulations from time to time applicable to the premises.

D. To comply with all other rules and regulations prescribed from time to time by the Seller.

9. Upon termination of this agreement, the Buyer hereby agrees to leave the surface of the land in a reasonable condition in accordance with good safety practices in the area in which the premises are located, and unless otherwise specified by the Seller, such restoration shall include:

A. The sloping of the side banks of an excavation resulting from the operation to a reasonable safe grade.

B. The back-filling into the excavation of all unused waste material to a uniform level on the floor of the excavation.

C. Top soil and overburden shall be stockpiled and back-filled reasonably into the excavated area in a manner to aid re-vegetation.

D. Removal and restoration of the surface of any new haul roads constructed on state land by Buyer, which roads the Seller does not elect to retain upon notice by Buyer.

10. The Buyer shall promptly pay Seller (and lessees of Seller where applicable) for any loss to Seller or its lessees caused by the Buyer or by Buyer's servants, agents, employees or contractor to the premises, its grasses, forage, crops and improvements; the Buyer further agrees to promptly furnish and file a bond with Seller in such reasonable amount as required by the Seller in order to guarantee payment of any such loss and restoration of the surface of the land subject to this agreement.

11. Provided Buyer is not in default in any of the terms and conditions hereof, the Buyer shall have the right to terminate this agreement upon any annual anniversary date thereof by giving the Seller not less than thirty (30) days prior notice in writing of Buyer's intention to do so.

12. Upon thirty (30) days prior written notice to Buyer, Seller upon finding bad faith on the part of Buyer shall have the right to terminate this agreement at any time for the failure or neglect of the Buyer to perform any of the provisions hereof. Failure to pay royalties when due shall be presumed to be bad faith.

13. In the event of termination by Buyer or Seller, the unused advance royalty paid shall become the exclusive property of the Seller.

14. The Buyer agrees to fence all dangerous workings to protect livestock, humans and property.

15. The Buyer agrees to save, hold harmless and indemnify the Seller and all of its agencies, officers and employees against any and all claims, costs, damages, expenses or charges arising out of, incidental to, or resulting in any way from Buyer's operations pursuant to or in violation of this agreement.

16. The State of Arizona reserves the right to assign or otherwise lease or permit the use of the premises to others for uses or purposes not inconsistent with Buyer's right herein.

17. This agreement is subject to existing laws of the State of Arizona and rules and regulations of the Seller and any laws and rules and regulations hereinafter enacted or adopted by Seller and in no event shall the State Land Department or any of its officers or personnel be liable for damages or otherwise under the provisions hereof.

19. If at any time during the duration of this agreement, the whole or any part of the premises shall be taken for any quasi-public or public purpose by any person, private or public corporation or by any governmental agency having authority to exercise the power of eminent domain or condemnation proceedings pursuant to any law, general, special or otherwise, this agreement shall expire on the date when the premises shall be so taken or acquired, and all compensation and damages awarded for rights or interests in the premises being condemned and all compensation and damages awarded for rights or interests in severance which may accrue to the remaining premises shall be the sole property of Seller; however, in the event of such taking, advance royalties prepared and unused by Buyer shall be returned to the Buyer to the extent, if any, that such taking makes it impossible for Buyer to enjoy the rights hereby purchased, and Buyer shall have the right to receive any and all awards or payments made for any buildings or other improvements lawfully placed on the premises by the Buyer with the approval of the Seller; improvements shall include materials processed and stockpiled on the premises taken.

2. If the materials are used for road maintenance, the Buyer shall report such production quarterly, commencing the 15th day of the fourth month this agreement is in force and effect; such report shall be made irrespective of whether or not any materials have been removed from the state lands subject to this agreement.

3. If the materials sold herein are used for a construction project built pursuant to a written contract between Buyer and an independent contractor, the royalty rate established in accordance with Paragraph 6 shall apply during each calendar year said contract is in force and effect instead of each year this agreement is in force. Buyer agrees to comply with Section 908.00 of the Arizona Department of Transportation Construction Manual, as approved by the Seller from time to time, and Buyer further agrees that Buyer's agents, servants, employees and independent contractors shall comply therewith. If the then current market value of the material is greater than the amount provided for herein, the Buyer shall require its subcontractor to pay said current market value, and the same shall be paid to Seller during the term of the subcontract.

4. To the extent legally permissible and Paragraph 15 notwithstanding, the Buyer hereby agrees to indemnify, hold and save Seller harmless against all loss, damage, liability, expense, costs and charges incident to, or resulting in any way from the use, condition or occupation of the land.

22. It is understood that any revaluation and royalty rate changes for the Arizona Department of Transportation will be determined on the Agreement date year basis referred to in Paragraph 6 rather than on the calendar year basis referred to in Paragraph 21.B.3.

24. Other provisions:

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IN WITNESS WHEREOF, the Buyer and Seller have set their hands and seals as of the 1st day of September, 1976.

ARIZONA STATE LAND DEPARTMENT

SEAL

By

A. V. Murphey  
for STATE LAND COMMISSIONER

✓ CYPRUS MINES CORPORATION

SEAL

By

Paul H. Allen  
Its Executive Vice President